

## Top-level design and local-level paralysis: Local politics in times of political centralisation

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### KEY FINDINGS

- China's leadership under Xi has reinforced the party's hierarchical command structures, demonstrated through its top-down campaigns, focusing on austerity, anti-corruption efforts and party discipline. It has reinvigorated sanctioning and incentive mechanisms for local cadres, with unknown effects on their long-term performance and loyalty to the CCP.
- Re-centralising the intergovernmental financial system strengthens the overall steering capacity of the central government temporarily, but does not alleviate the fiscal stress on local governments. The central government is pushing for greater market orientation at the local level, resulting, thus far, in short-sighted solutions that will end up reducing transparency concerning local debt.
- Local leaders are abstaining from bold policy moves out of fear of demotion, exclusion from the party, or legal repercussions. Consequently, subnational governments have ceased to act as independent actors of policy initiative and innovation. Policy piloting and experimentation will remain an important component of the policy process, but will be employed only very selectively and under the auspices of the central government.
- These reconfigurations of central-local relations give the central leadership more tools to enforce local compliance, and they appear to be effective in the short term. But they will suffocate subnational policy initiative, ultimately undermining the adaptive capacity of the Chinese state.

### POWER MAY BE CENTRALISED, BUT THE CENTRE'S DEPENDENCE ON SUBNATIONAL GOVERNMENTS FOR IMPLEMENTATION REMAINS

The leadership transition in 2012/13 did not just mark a clear handover of power to a new generation of top leaders: it also redirected the Chinese political system in some rather radical ways. Starting a major (and still ongoing) anti-corruption campaign was but one signal from the leadership showing its political determination to bring about change. The new leadership also put forward an ambitious catalogue of new goals and mechanisms for policymaking, embodied by the CCP's "decision on major issues concerning comprehensively deepening reforms" unveiled at the 18th Central Committee's 3rd plenum in November 2013. Containing a strong mandate to push forward major reforms, the decision gives top priority to policies that call for increased market orientation. It simultaneously provides for an enhanced top-down, centralised governance mode that leaves no doubt that the CCP has ultimate control (Ahlers et al. 2013). In 2016, most of the policy-related decisions were further elaborated upon in the 13th Five-year plan of the PRC (2016–2020).

Progress towards these goals, and the ultimate success of the CCP's reform plans, critically depends on subnational governments, especially at the provincial, municipal and county levels. In the past, the central leadership often faced local circumvention or covert non-compliance in response to new initiatives. Therefore, one of the biggest challenges the current core executive inherited was enforcing compliance and guaranteeing effective and sustainable policy implementation.

Increasingly concerned about rampant corruption in China's far-flung administrative system and unable to tolerate inefficient policy implementation in a slowing economy, the CCP leadership was left with little choice but to reorganise central-local relations. In this essay, we consider the most prominent measures taken thus far and posit that these measures have indeed significantly reconfigured central-local relations. Our essay includes initial assessments of the impact of individual reconfigurations. We conclude with a general outlook on potential short- and long-term developments.

## THE CCP LEADERSHIP UNDER XI REINVIGORATES HIERARCHICAL COMMAND STRUCTURES

Several central-level structural changes have concentrated power in the hands of the top leadership, but the extent to which this has affected central-local relations differs by issue area. The Leading Small Group for Comprehensively Deepening Reform (CDRLSG), established shortly after the 3rd Plenum and under the direct leadership of Xi Jinping, has had by far the most immediate impact on central-local relations and on local operations. The group is meant to supervise reform progress in the key policy areas identified in the 2013 decision and it took over part of the decision-making powers that originally were vested in other LSGs and the State Council (for details, see: Miller 2014). This new centralised steering body is furthermore mirrored at almost every level of the governmental hierarchy, as subnational governments established equivalent LSGs on comprehensively deepening reform in order to answer to the new extensive central calls.

CCP has reduced subnational governments' overall discretionary power. This diminishes both zeal for experimentation and room for innovation.

### Clarification of responsibilities and increased transparency

In March 2013, Li Keqiang announced a major programme for transforming the role of the government, including deregulation and streamlining of competencies. As a result, the responsibilities and portfolios of various government units are more specific than ever before. Publicly available "power lists" (权力清单) provide an overview of competencies of individual government units. They act as a service-oriented reform, intended to accommodate the demands of "clients" (mainly citizens and entrepreneurs) for accessibility and procedural transparency (Stepan 2015). Arguably, however, their real purpose is to increase procedural efficiency, as they signal which organisational units have the necessary competencies (and mandate) to make certain decisions. While the CCP likely still considers local experimentation important for policy innovation, it has actually reduced subnational governments' overall discretionary power. This diminishes both zeal for experimentation and room for innovation.

### Cadre evaluation: demotion has turned into a real threat

Similarly, the central government has introduced more sophisticated policy performance targets as part of the reform of the cadre evaluation system. Firstly, compared to previous administrations, the most recent programmes with performance targets contain strikingly few binding targets. This smaller number of goals – even though the goals themselves may be comparatively difficult to achieve – should mean that they are more attainable for local leadership, and the central government has clearly enunciated the absolute necessity of their implementation. At the same time, the centre has adjusted the criteria of target contracts and the cadre evaluation system, which stretches across all governmental levels. Underscoring the top leadership's decree that economic growth can no longer offset underperformance in other policy areas. Enhanced monitoring of cadres' performance on priority issues, such as public service provision and environmental protection, now accompanies what used to be an almost exclusive focus on GDP growth.

This all means increased complexity and even heavier burdens for local administrators. If they deliver, they can expect to rise. If they fail to do so, the government has a new sanctioning mechanism at hand: demotion. Whereas in the past, demotion was rarely used except as a tool in party discipline inspection, central guidelines issued in 2015 by the central government and transposed by most subnational governments in the meantime, make demotion a real threat (SCMP 2015). The recent adaptations may have been necessary to strengthen control over local implementation, but they could end up causing opposition among local cadres.

## RESTRUCTURING LOCAL FINANCES: TAPPING NEW SOURCES AS OLD ONES RUN DRY

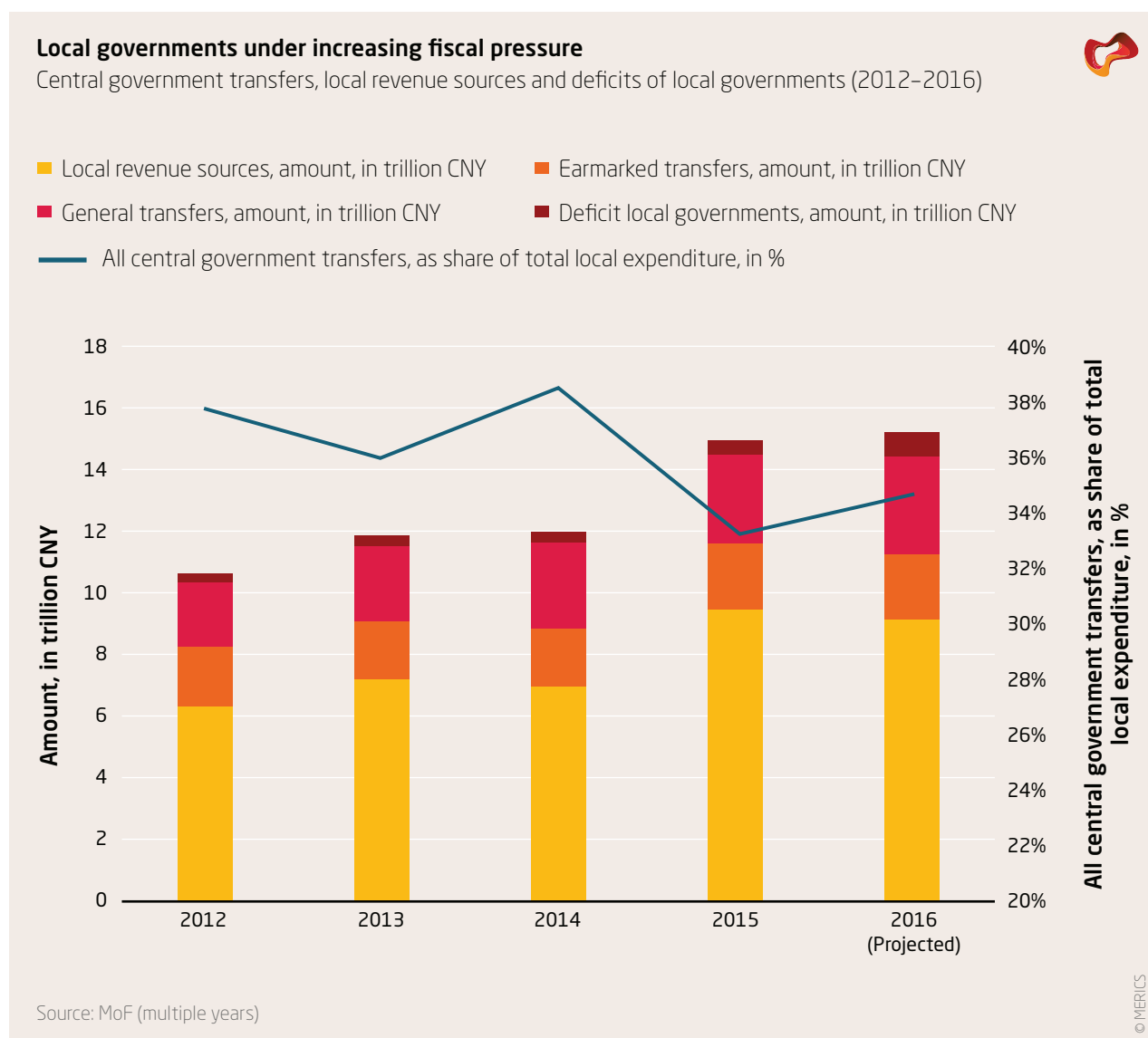
For more than two decades, subnational governments in China have faced increasing fiscal pressure. Unfunded mandates have driven them to search for new sources of income to finance public services and infrastructure projects. The new leadership has enumerated even more deliverables expected of subnational governments, while simultaneously reducing their sources of income through stricter regulation of land sales, real estate deals, and local financing platforms. Thus the question arises: how can the solvency of local governments be guaranteed as they are tasked to provide more services with less money?

### Local and central government are searching for new financial sources

The central government has done little with respect to increasing local governments' fiscal base. Instead, it is expanding upon previous adjustments to the intergovernmental transfer system. Since 2012 the central government has been increasing the share of general transfers. This marks the end of a project-based approach that is built around earmarks for particular projects, transferred to subnational levels (Ahlers 2014).

While the new system apparently allows subnational governments more flexibility in allocating the funds they receive from the centre, "managing scarcity" still rules the day, as the amount of funding continues to be insufficient.

Figure 5



As a solution to this problem, the central government has prescribed a “market-orientation”. It is stridently calling on local governments to invoke “social capital”, essentially meaning private commitments. This involves donations or corporate social responsibility (CSR) measures from local state and private enterprises as well as increased reliance on contractors or “non-governmental organisations” to provide services, especially in the health and care sector.

### **“Decentralising” market orientation still happening under extreme hierarchy**

The strongest symbols of this new market orientation are the new “investment companies” (基金公司), which act as industry policy vehicles for subsidy allocation, local favourable industry schemes, and business project funding and loans at the local level. Former government officials flock to become chairmen of these new institutions. They can be described as “semi-capitalist” local agencies, but their priorities are largely set behind the scenes by the enormous top-down steering in the background.

### **Local finances still unsustainable in the long term as implicit debt continues to rise**

Local debts are on the rise. The last official release of data on local debt dates to mid-2013. According to the National Audit office, debt amounted to CNY 17.9 trillion. The implementation of a debt-for-bonds swap programme, allowing local governments to refinance a portion of their maturing debts via bond issuances in 2015, is another sign of the dire state of local finances. According to a report by the Economist Intelligence Unit, provinces issued around CNY 600 billion in new bonds and converted debts worth CNY 3.2 trillion in 2015 alone (cf. EIU 2016).

In addition, the centre has endorsed Public Private Partnerships (PPP) as a panacea for fiscal gap problems. PPPs might provide local governments with a new source of income to realise certain projects, but their use in China and elsewhere has shown that they also create problems of their own. Overuse of PPPs carries with it the danger that short-term financial considerations outweigh longer-term ones as the main drivers of PPP establishment. As of now, local government priorities and their power over the involved companies are still the more critical factors in the setting up of PPPs, overriding the involved companies’ economic considerations.

Reinvigorated ideological training alienates local administrators from top-level leadership.

## **RIGOROUS PARTY DISCIPLINE INSPECTION PARALYSES LOCAL GOVERNMENT ACTIONS**

The CCP leadership fears disintegration and has called “decentralism” a major evil. Through the several key steps outlined above, the CCP is pushing for increased effectiveness and standardisation in local-level policy implementation. Apparently aware that intensified pressure on local governments could “over-stretch” the system, the central leadership has employed a set of seemingly anachronistic tools in an attempt to enforce compliance: a nationwide anti-corruption campaign, enhanced discipline inspection, and ideological training.

### **More frequent and stricter forms of discipline enforcement**

At the local level, the pervasiveness of the anti-corruption campaign and its attendant disciplinary measures is striking. Over 90 per cent of ousted officials were cadres at the county level or below. High staff turnover levels and recruitment efforts are consuming substantial proportions of the remaining experienced officials’ available time. Furthermore, thorough disciplinary inspections at these lower levels also means that the actual business of governance often slows for weeks at a time, and exchanges with other departments, stakeholders and external advisors essentially stops.

Aside from the ever-increasing inspection tours by higher-level organs, discipline supervision is also manifesting itself in a more permanent form on the local government level. Nearly all local departments now host at least one “disciplinary agent” (纪委的) who oversees and screens all activities, meetings, inspection tours, publications, etc.

### Using ideology as a means to enforce policy compliance and effectiveness

The CCP no longer values policy effectiveness or pragmatic policy solutions on their own. It now requires ideological obedience and ultimate loyalty to the Party's core values and developmental priorities.

This is reflected in reinvigorated ideological training. Leading cadres spend weeks or months reciting "core" works in Party school courses and are responsible for holding frequent "study sessions" with their staff. This alienates local administrators from top-level leadership, as they see these training sessions as wasting both time and resources. Thus, such ideological measures are unlikely to enhance policy effectiveness and implementation in the long run and may in fact produce the opposite result: an increasing number of experienced local officials will probably leave the civil service, stripping the party-state nexus of its most valuable resource for managing the mounting challenges for governing the country.

### OUTLOOK: SHORT TERM GAIN, LONG TERM PAIN

Drawing from the initial assessment of these reconfigurations, we conclude that the short- and long-term prospects of policy effectiveness are quite different:

- In the *short term*, reduced local discretionary power breaks down local circumvention to central policies and benefits programme implementation.
- In the *long term*, unless the centre eases up somewhat on subnational actors and improves the fiscal basis of local governments, local policy initiative will be completely suffocated. This would have significant negative implications for the adaptive capacity of the Chinese state and its recently improved record in providing public goods.

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